



WEEKLY ECONOMIC DIGEST

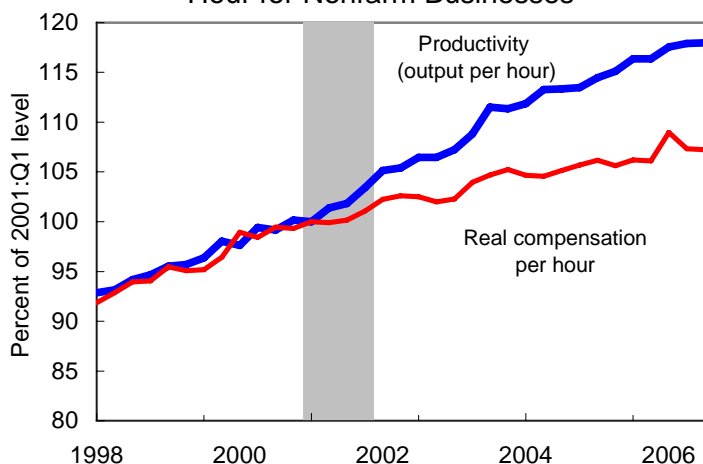


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

December 6, 2006

Labor Compensation Weaker Than First Thought As Economy Slows

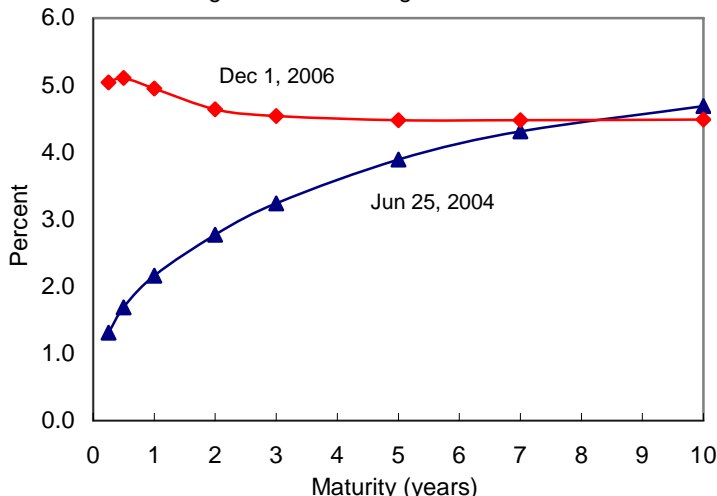
Productivity and Real Compensation per Hour for Nonfarm Businesses



Source: JEC calculations based on data from the Bureau of Labor Statistics, U.S. Department of Labor and the National Bureau of Economic Research.

Note: The gray area indicates a period of recession as defined by the National Bureau of Economic Research.

Yields on Treasury Securities, by Maturity
Average for week ending on indicated date



Source: Board of Governors, Federal Reserve System.

- **Revised GDP data still show a slowing economy.** Real (inflation-adjusted) gross domestic product (GDP) grew at an annual rate of 2.2 percent in the third quarter, according to revised estimates by the Department of Commerce. While higher than last month's advance estimate of 1.6 percent, the new third-quarter growth figure is down from the second quarter growth rate of 2.6 percent and well below the 3 to 3½ percent growth range thought to be necessary to keep the unemployment rate from rising over the long term.
- **Labor costs are growing much more slowly than originally thought.** Productivity (output per hour worked) in nonfarm businesses grew at a 0.2 percent annual rate in the third quarter. That is slightly better than last month's original estimate of zero growth. Instead of rising, as originally estimated, real (inflation-adjusted) compensation per hour (wages plus benefits) fell at an annual rate of 5.9 percent in the second quarter and 0.4 percent in the third. As a result, real compensation per hour continues to lag far behind productivity in this expansion (see top chart).
- **Prices of existing homes sagged further in October.** The median sales price of existing single-family houses was \$221,300, or 3.4 percent below the price a year earlier. That was the largest 12-month drop in existing home prices on record. While the weakness in existing home prices was widespread, the sharpest 12-month declines were in the south (down 6.7 percent) and the northeast (down 5.2 percent).
- **Long-term interest rates are now below short-term rates.** The interest rate on 10-year Treasury notes averaged 4.49 percent last week and is now below short-term rates. The difference between long-term and short-term interest rates has narrowed sharply since the Federal Reserve began raising short-term rates in June 2004 (see bottom chart). An "inverted yield curve" is unusual, but it is unclear at this time whether a future adjustment will involve higher long rates or lower short rates.

The Economy at a Glance	Nov	Oct	Sep	Aug	2006 Qtr 3	2006 Qtr 2	2006 Qtr 1	2005 Qtr 4	2005	2004
Economic Activity										
Real GDP (% growth)	—	—	—	—	2.2	2.6	5.6	1.8	3.2	3.9
Industrial Production (% growth)	n.a.	2.4	-7.0	3.7	4.2	6.6	5.1	5.3	3.3	4.1
Capacity Utilization (level, %)	n.a.	82.2	82.1	82.7	82.5	82.0	81.1	80.5	80.0	78.6
Civilian Unemployment Rate (level, %)*	n.a.	4.4	4.6	4.7	4.7	4.7	4.7	5.0	5.1	5.5
Housing Starts (thousands)	n.a.	1486	1740	1659	1720	1873	2123	2060	2073	1950
Real Disposable Personal Income (% growth)	n.a.	7.0	10.5	3.6	3.7	-1.5	4.6	5.5	1.2	3.6
Retail Sales (% growth)	n.a.	-4.3	-7.3	0.2	3.6	3.3	13.1	2.3	7.2	6.2
Personal Saving Rate (level, %)	n.a.	-0.6	-0.7	-1.3	-1.3	-1.4	-0.3	-0.3	-0.4	2.0
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	n.a.	-5.8	-5.8	2.4	2.9	5.0	2.2	3.2	3.4	2.7
Core CPI-U Inflation (% growth)	n.a.	1.2	2.4	2.4	3.0	3.5	2.4	2.4	2.2	1.8
Compensation per hour (% growth)	—	—	—	—	4.1	3.6	2.4	3.2	3.3	3.7
Output per hour (% growth)	—	—	—	—	0.2	1.2	4.3	-0.1	2.3	3.0
Financial Markets										
T-bill Rate, 3-month (level, %)	4.94	4.92	4.81	4.96	4.91	4.70	4.39	3.83	3.15	1.37
T-note Rate, 10-years (level, %)	4.60	4.73	4.72	4.88	4.90	5.07	4.57	4.49	4.29	4.27
Federal Funds Rate (level, %)	5.25	5.25	5.25	5.25	5.25	4.91	4.46	3.98	3.22	1.35
Dow Jones Industrial Avg (index level)	12185	11963	11534	11257	11274	11189	10996	10616	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Upcoming Economic Releases:

- **Flow of Funds Accounts of the United States: Third Quarter 2006** [Release: Thursday, December 7]
- **The Employment Situation: November 2006** [Release: Friday, December 8]
- **Monthly Wholesale Trade, Sales and Inventories: October 2006** [Release: Monday, December 11]
- **U.S. International Trade in Goods and Services: October 2006** [Release: Tuesday, December 12]
- **Federal Open Market Committee Statement on Monetary Policy** [Tuesday, December 12]